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The First Jersey National Bank, 2 Montgomery Street, Jersey City, N.J. 07303, U.S.A.
Montreal Trust Company, 15 King Street West, Toronto, Ontario, M5H 1B4, Canada
United California Bank, Box 3667 Terminal Annex, Los Angeles, Calif. 90051, U.S.A.

COVER PHOTO: Aerial view of Panarctic
Tenneco et al. Bent Horn N-72 oil discovery
well on Canada Southern-interest acreage
on Cameron Island. Discovery of 43 gravity
crude oil at depth of 10,500 feet marked
first recovery of live crude from Devonian
carbonates of Paleozoic age in the Canadian
Arctic Islands. Well was flowed at rate of
500 barrels per day on March 31, 1974. Snow
windrows are designed to keep drifts away
from drillsite and roadways.

Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd.
should be addressed to the Company in care of
The First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, U.S.A.,
or to 940 Eighth Avenue South West, Calgary, Alberta, T2P 1H8, Canada

Canada Southern Petroleum Ltd.

Chairman's Letter

To the Shareholders:

The past year was distinguished by two significant exploratory successes, both on Canada Southern-interest properties assigned to Panarctic Oils Ltd., the Canadian Government-private industry consortium now engaged in its seventh year of exploration covering Canada's Arctic Islands.

Ranked as a milestone in hydrocarbon search operations, the more recent of these tests represented the world's first offshore exploratory well drilled from an ice platform. With drilling operations conducted from a man-made island in 400 feet of water, the Panarctic Tenneco et al. W. Hecla N-52 well, in which Canada Southern holds a 40% working interest, succeeded in confirming a westerly eight-mile seaward extension of the large Hecla gas field discovered on Melville Island's Sabine Peninsula in 1972.

The second of the year's noteworthy exploratory successes was the recovery on Cameron Island of the first crude oil to be produced from a reservoir of Paleozoic age in the Arctic Islands. The Panarctic Tenneco et al. Bent Horn N-72 well, in which Canada Southern owns a 6.67% interest, produced light gravity oil at the rate of 500 barrels per day on an extended test.

The importance to Canada Southern of the above tests is heightened by the fact that the Company's ownership interest in each case extends to large acreage blocks contiguous to these discoveries. While sections of Permit No. 2718, site of the Hecla N-52 offshore well, and of adjoining Permit No. 2715 represent 40%-owned acreage, the remainder of an extensive 751,070-acre offshore block in this area, now believed to be underlain in part by the westward extending Hecla field, covers property in which Canada Southern owns a 50% working interest. Moreover, Cameron Island, site of the Bent Horn N-72 oil discovery, is held almost entirely under Company-interest permit as are large areas of contiguous offshore acreage.

In addition, the Hecla N-52 gas well, having established that Arctic offshore drilling can be accomplished both effectively and economically, opens the way to early recovery of large gas reserves believed to exist offshore not only in the Hecla area but elsewhere in the Arctic Islands. Also, the Bent Horn N-72 oil well, representing the most encouraging of five recoveries of oil on tests over a broad geographic area including the Archipelago's first oil discovery on Canada Southern-interest acreage in 1972, provides fresh evidence that substantial oil reserves may yet be found in the Arctic Islands provided adequate exploration is carried out.

Canada Southern, with more than 8.1 million gross acres assigned under agreement to Panarctic, equivalent to about 10% of the total acreage committed to that group's far-ranging oil and gas search, continues to regard the Arctic Islands as a hydrocarbon province of major potential.

The 1974-75 Arctic Islands drilling season is now under way against a seven-year background of impressive results. From more than 60 wildcat wells drilled or caused to be drilled by Panarctic have come five major gas discoveries with esti-

mated total reserves approximating 15 trillion cubic feet, and, as above indicated, five oil recoveries on tests from beds ranging in age from Jurassic to Lower Paleozoic. Future marketing of Arctic Islands gas initially involved a proposed 3,200-mile, 48-inch transmission system anticipating the availability of minimum required reserves of 30 trillion cubic feet. Alternatively, consideration presently is being given to a two-stage construction program, the first of which would collect Melville Island gas for transmission via a 2,415-mile, smaller diameter pipeline connecting with existing systems, thereby reducing the threshold requirement and accelerating future deliverability to commercial markets. With a number of promising geological structures yet to be drilled and major programs of seismic work, exploratory and development drilling in prospect for 1974-75, the belief here is that the remaining reserves required to justify either Polar pipeline concept will be discovered in the near future.

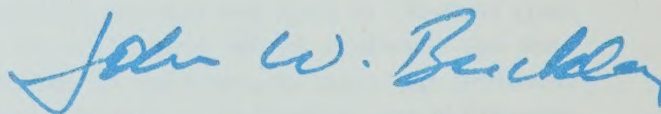
Canada Southern-interest Permit No. 134 on Cameron Island is the location of the new season's first well, drilling of which was commenced on September 23. The Panarctic et al. Cape Fleetwood L-21, a scheduled 12,000-foot test, is being drilled at a site approximately 12 miles north-northeast of the Bent Horn N-72 oil discovery. This is the second follow-up well to the Bent Horn success, a previous test at Robert Harbour on Cameron Island's north coast having been abandoned in mid-August. It is anticipated that at least two and perhaps three more wells will be drilled by Panarctic on Cameron Island in the year ahead.

During the year under review, Canada Southern participated in a shallow gas discovery in northwestern Alberta, following which acreage adjacent to the discovery was acquired by the Company and its partners. Present plans call for the drilling of up to four wells in the area this winter in an effort to extend the field and establish sufficient reserves to justify production.

The Company during the year became a participant in a promising exploratory venture in Italy, where an encouraging gas find recently was reported on interest acreage. Other work is taking place in Ireland, South West Africa and the United States. In addition, the Company joined two groups holding Canadian-United States and Australian rights, respectively, to newly-developed, high-speed, multipurpose drilling equipment believed to represent the most innovative advance in drilling technique in 40 years. Six of these units currently are being manufactured in collaboration with Parker Drilling Company for use in the construction of the Alyeska pipeline.

A detailed review of progress in these and other sectors of Canada Southern's operations during the past year is contained in the following pages, which also include audited financial statements for the fiscal year ended June 30, 1974.

On behalf of the Board of Directors,



Chairman of the Board

October 31, 1974

Review of Operations

PETROLEUM

CANADA

Arctic Islands

Progress towards attainment of the threshold reserves required for the marketing of Arctic Islands natural gas was significantly advanced early this year as a result of the successful offshore test drilled on Canada Southern-interest Permit No. 2718 west of Melville Island's prolific Sabine Peninsula, which confirmed an eight-mile seaward extension of the large Hecla gas field discovered onshore in 1972. The second of the year's successful tests, the Panarctic Tenneco et al. Bent Horn N-72 well, the first wildcat to be drilled on Company-interest acreage on Cameron Island some 70 miles to the east of the Sabine Peninsula, resulted in a 500 barrel per day oil discovery, marking the first recovery of live crude oil from Paleozoic rocks in the Arctic Islands.

Hecla Field Extension

The offshore well, Panarctic Tenneco et al. W. Hecla N-52 (CSP, 40% working interest), the drilling of which achieved the dual distinction of being the first offshore exploratory test in the Arctic Islands and the first in the world to be drilled from an ice platform, flowed 7.1 million cubic feet of gas

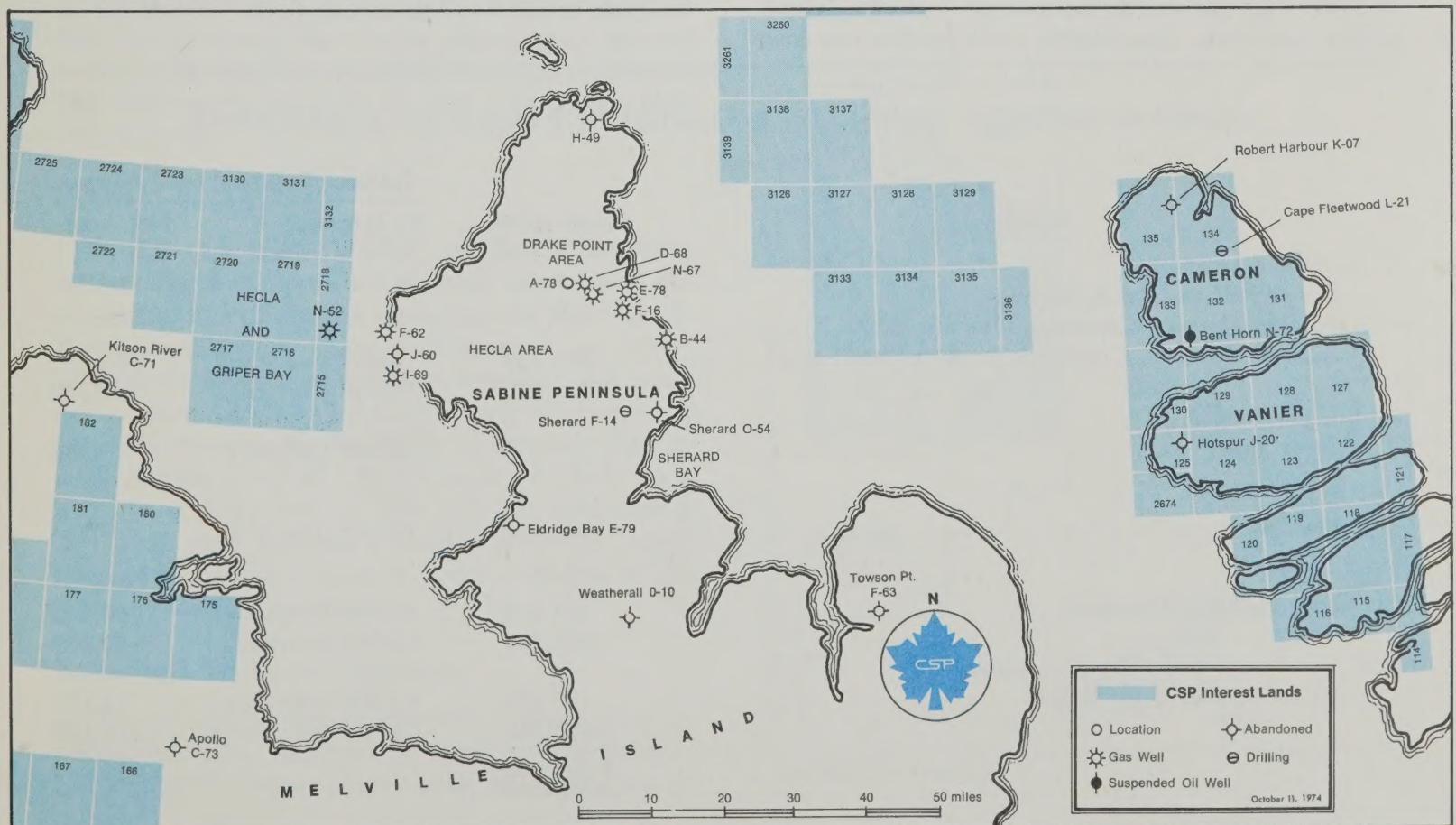
per day on test through a restricted choke from the Borden Island sands at 2,695 feet.

The Hecla gas accumulation, the large breadth of which was indicated by onshore drilling early in 1973, is now believed, on the basis of the Hecla N-52 test, to extend under the ocean floor up to 15 miles or more in a generally west-northwest direction off the Sabine Peninsula. Width of the Hecla structure, based on seismic measurements, is estimated at about eight miles.

Industry sources presently suggest that the Hecla field, its westward extension having now been confirmed by the Hecla N-52 success, offers promise of a gas potential similar to that of the Drake field, 30 miles to the east. Indeed, Panarctic Oils Ltd. has described Hecla as a "twin" to the Drake field and has identified both as "major" gas fields.

While the Borden Island formation at Drake is the main reservoir, the underlying Triassic Bjorne formation also is productive. If later tests at Hecla confirm the presence of a secondary pay zone in the Bjorne, the Hecla field, it is believed by some informed observers, could rank as the largest gas producer in the Arctic Islands. On the basis of the Borden Island sands alone, Hecla's underlying gas reserves, according to published reports, are estimated to exceed one trillion cubic feet.

The significance to Canada Southern of the Hecla field's seaward extension derives from the fact that, with few exceptions, the major portion of the large



751,070-acre Company-interest block lying off the west coast of the Sabine Peninsula represents property in which the Company owns a 50% working interest. The sole exceptions are certain sections of Permit Nos. 2718 and 2715, in which the Company's working interests amount to 40%.

Moreover, the practicality now established of drilling from ice platforms in Arctic waters holds considerable promise for Canada Southern since more than 45% of the 8.1 million gross acres assigned by the Company under agreement to Panarctic consist of 50%-owned acreage located offshore the west and east coasts of the Sabine Peninsula and elsewhere in the Arctic Ocean. Panarctic has indicated that exploration in high-potential offshore areas of the Sverdrup Basin will become increasingly important in future Arctic Islands search activity.

Cameron Island Oil Discovery

The Bent Horn N-72 well, as previously noted, became the first producer of crude oil from a reservoir of Paleozoic age in the Arctic Islands. The location of the discovery on Company-interest Permit No. 132 near the southwest coast of Cameron Island holds special significance for Canada Southern since the entire island plus large areas of contiguous acreage is almost totally Company-interest property (CSP, 6.67% working interest).

Indications are that Panarctic will direct much of its attention in coming months to the continuation of an intense oil search focused on Cameron Island.

Upon completion of the Bent Horn N-72 well, a subsequent test, since abandoned, was drilled near Robert Harbour on the island's northern coast. In late September 1974, Panarctic commenced the drilling of the Panarctic et al. Cape Fleetwood L-21 well (CSP, 6.67% working interest) on Permit No. 134 at a site approximately 12 miles north-northeast of the Bent Horn N-72 oil discovery. The well, a scheduled 12,000-foot test, was reported drilling below 4,027 feet on October 11. At least two and perhaps three additional wells are expected to be drilled on Cameron Island during the 1974-75 season.

While gas discoveries to date in the Arctic Islands have overshadowed the oil finds recorded over the comparable period, basin studies by Panarctic indicate that major reserves of both oil and gas remain to be discovered provided sufficient exploration is carried out. Exploration conducted thus far in the Arctic Islands has barely scratched the surface, according to Panarctic, with one well drilled per 3,000,000 acres compared with one well per 3,500 acres in Alberta.

Polar Gas Project

Natural gas reserves discovered in the Arctic Islands since 1969 are conservatively estimated to provide up to one-half the threshold reserves of approximately 30 trillion cubic feet required to sustain the throughput initially proposed for the Polar Gas transmission system. Established in late 1972, the Polar Gas Project, comprised of companies having major interests in the development of Arctic Islands gas re-

COMPANY-INTEREST PROPERTIES INCLUDED IN PANARCTIC AGREEMENTS

Islands	Gross Acres	Interest Retained by Company	
		% Interest	Net Acres
TriCeeTee Agreement			
Prince Patrick, Brock, Melville, Emerald, Vanier, Cameron, Ellef Ringnes, Amund Ringnes, Cornwall, Axel Heiberg	480,767 3,206,330	6.667 (working) 5.000 (carried)	32,051 160,317
CSP-Clark-Skelly			
Eight Bears	57,210	6.000 (carried)	3,433
CSP-B.P.			
Melville	62,650	13.125 (carried)	8,223
CSP			
Axel Heiberg, Ellesmere	304,108 405,126	20.000 (working) 15.000 (carried)	60,822 60,769
CSP			
Offshore, Sverdrup Basin	30,292 3,620,315 <u>8,166,798</u>	40.000 (working) 50.000 (working)	12,117 1,810,157 <u>2,147,889</u>

sources, initially contemplated the construction of a 3,200-mile, 48-inch pipeline to deliver 4.5 billion cubic feet of gas daily from the Arctic Archipelago to markets in eastern Canada and the United States.

Project officials recently have indicated consideration is being given alternative proposals using smaller diameter pipe than that originally planned. Additionally, consideration focuses on a possible two-stage program. The first would consist of 1,500 miles of 42-inch line and 915 miles of 36-inch line to deliver 2 billion cubic feet of gas per day from the Melville Island region only to either Emerson, Manitoba, or Longlac, Ontario, connecting with existing systems at either of these terminals. The succeeding stage contemplates extending the Polar Gas system south to Niagara Falls, Ontario, and north to the King Christian Island fields, thereby increasing the system's capacity to 4 billion cubic feet of gas daily.

According to Project officials, research carried out during the past 18 months has given substance to the view that a natural gas pipeline from the Arctic Islands is technically, economically and environmentally feasible.

Alberta

Canada Southern participated in a shallow gas discovery in northwestern Alberta early in 1974. The Company and its partners were successful in purchasing additional adjoining acreage, thereby increasing the group's aggregate ownership of land in the vicinity of the discovery to some 67,000 acres. It is anticipated that up to four wells will be drilled on this acreage during the coming winter in an attempt to extend the field and establish commercial reserves. The Company's interests in this area range from 10% to 25%.

British Columbia

No plans for further drilling on Canada Southern-interest lands in British Columbia have been disclosed by the companies operating on these lands. It is possible that some drilling may yet occur, particularly in view of the more attractive gas prices in the province. The Company, in a related move, is presently studying the feasibility of commencing production from a well in which Canada Southern owns a 100% working interest. This well has been shut in for many years because it would have been uneconomical to attempt tying it into a pipeline at the then prevailing gas prices.

Yukon and Northwest Territories

Data resulting from an extensive seismic program conducted during 1973 on Company-interest acreage in the North Beaver River area offer promise of

renewed exploratory drilling on these lands. Encouraging structural detail was provided in the general area of the Canada Southern et al. North Beaver River YT I-27 gas discovery on the Company's former Permit No. 1007 (CSP, 45% carried interest). In view of the improved market price prevailing for gas and with the availability of a large-diameter gas pipeline crossing Company-interest lands in this area, additional drilling is expected to be undertaken by the operating group.

ITALY

Early this year, Canada Southern acquired a participating interest in two northern Italian exploration permits considered prospective for natural gas. The two permits, which cover approximately 164,000 acres, are located at the northerly edge of the sedimentary basin of the Plains of Po, some 37 miles north of Venice. A natural gas pipeline presently extends from Venice to Treviso, about 10 miles distant from the southerly limits of the two permits. A second pipeline, which is planned to extend from Milan to Cavazzo near the Yugoslav border, would either cross or closely approach the permit acreage.

The first well drilled, the Cavalletto No. 1 exploratory well, encountered natural gas in lower Miocene limestone at a depth of 5,036 feet. Tests established a stabilized flow rate of 5,191,525 cubic feet per day through a 3/8th-inch choke with flowing tubing-head pressure of 1,593 p.s.i. A second well, drilled approximately one mile to the southwest of the discovery, did not encounter the gas-bearing formation and was subsequently abandoned. Additional drilling



Veneto Area Permits

will be required to determine the potential of the discovery.

IRELAND

Canada Southern became a 20% participant early this year in the Oakwood Group, which holds a nonexclusive petroleum prospecting license awarded by the Republic of Ireland covering exploration in the Celtic Sea off that country's southeast coast. The group, of which Oakwood Petroleum (U.K.) Ltd. is operator, is conducting geological and geophysical studies in the Celtic Sea and intends to apply for permits in the area.

SOUTH WEST AFRICA

During the year under review, the Company further extended its exploratory horizons by becoming a partner in a three-member consortium (CSP, 10% working interest), which holds a 20% interest in a prospecting license covering Block 9 off the coast of South West Africa. The hydrocarbon potential of this 5.2-million-acre block may have been enhanced recently as a result of Chevron Oil Company's indicated gas discovery on an adjoining offshore exploration block.

NEW ZEALAND

During the past year, Canada Southern completed evaluation of data resulting from extensive seismic surveys conducted by a Gulf Oil Corporation subsidiary on petroleum concessions held by the Company offshore New Zealand. Canada Southern geologists, concurring in Gulf's generally negative estimate of the seismic data, recommended relinquishment of the Company's remaining concessions in the area, and accordingly these were surrendered by the end of June 1974.

MINERALS

CANADA

During the past year, Borealis Exploration Limited maintained intact its mining interests in 481 claims covering the massive iron ore bodies outlined by that company on the Melville Peninsula in the Franklin District of the Northwest Territories.

No additional field work was carried out during the period. Activities have been confined to the study of marketing possibilities in various world areas and to the improvement of joint government-industry collaboration through participation in conferences held under the auspices of the Canadian Government.

Canada Southern Petroleum Ltd.

STATUS OF CARRIED INTEREST AGREEMENTS AS AT JUNE 30, 1974

	Cumulative to June 30, 1972	
	Gross Expenditures	Production Proceeds
Pacific Agreement		
Ex. Permits 100-104	\$16,710,527	\$9,132,291
Phillips Agreement		
Ex. P. 268 (Block A)	1,635,680	
Ex. P. 149 (Block C)	5,454,332	275,866
Ex. P. 178 (Block F)	2,108,043	2,917,406
Ex. P. 224 (Block G)	4,916,773	8,763,038
Dome Pan-American Agreement		
Ex. Ps. 1007, 1132, 1133	223,867	
Ex. Ps. 1136, 2713, 1137, 2301, 1153	437,426	
Ex. Ps. 1149, 1156, 1178, 1181	1,086,210	

*Block F net proceeds from production became payable to the Company in July 1970, and by June 30, 1974 the Company's share amounted to \$437,644, including \$113,516 in fiscal 1973 and \$111,092 in fiscal 1974.

UNITED STATES

Through its wholly-owned subsidiary, Canpet Inc., Canada Southern is participating (17.5% working interest) in a uranium exploration program in the western United States.

Under agreement with AGIP Mining Co., Inc., a wholly-owned subsidiary of AGIP, Italy, that company for certain cash considerations earned a 65% interest in properties acquired by Canpet and a subsidiary of United Canso Oil & Gas Ltd. in the Minden and Stewart Valley areas in Nevada and the Ellis Area in Idaho. An exploration program involving radiometric, magnetometer and scintillometer surveys and the drilling and logging of exploratory holes aggregating approximately 13,600 feet was carried out in the spring and summer of 1974 on these properties. While nothing of commercial significance was uncovered, the bulk of the prospecting properties is being retained for another year. Meanwhile, an extensive geological reconnaissance program has also been undertaken in Nevada with a view to identifying and expanding exploration to other areas of promise.

FORACO N.V. AND FORACO N.H.

Canada Southern recently acquired ownership in-

terests in two companies, Foraco N.V. and Foraco N.H., which hold Canadian-United States and Australian rights, respectively, to an innovative French-developed drilling unit. The Foradrill V.P.R., believed to represent the most advanced equipment in the field of drilling technology to be introduced over the past 40 years, permits utilization of vibration, percussion and rotation, either separately or in combination.

Foraco N.V., a Netherlands Antilles company in which Canada Southern owns a 12.75% interest, is participating with Parker Drilling Company, of Tulsa, Okla., in the manufacture of the new units for use in the construction of the 789-mile Alyeska pipeline connecting Alaska's North Slope oil deposits with that state's southern ice-free port of Valdez. Alyeska has placed an initial order for six of the units, with delivery scheduled between December 1974 and April 1975.

Foraco N.H., established in New Hebrides, recently contracted with a large Australian-based company for its use of the Foradrill V.P.R. equipment in exploratory operations in Western Australia. Although operational in that continent for only a brief period, the multipurpose drilling unit has attracted considerable industry attention. Canada Southern's ownership interest in Foraco N.H. is 7.5%.

Year Ended June 30						Company Interest		
1973		1974		Cumulative to June 30, 1974		Net Expenditures	%	Cost to Convert to a Working Interest
Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds			
\$850,925	\$ 970,211	\$115,365	\$1,712,147	\$17,676,817	\$11,814,649	\$ 5,862,168	21.25	\$1,245,710
145,655		18,568		1,799,903		1,799,903	27.75	499,473
16,514	(2,077)	10,883		5,481,729	273,789	5,207,940	50.00	2,603,970
43,403	459,630	112,454	483,654	2,263,900	3,860,690	(1,596,790)	27.75	*
175,999	1,180,718	84,804	1,050,029	5,177,576	10,993,785	(5,816,209)	27.75	**
35,063		35,261		294,191		294,191	45.0	132,386
31,527		37,473		506,426		506,426	45.0	227,892
14,555		14,555		1,115,320		1,115,320	45.0	501,894

**Block G net proceeds from production became payable to the Company in December 1968, and by June 30, 1974 the Company's share amounted to \$1,578,395, including \$274,736 in fiscal 1973 and \$275,381 in fiscal 1974.



Canada Southern Petroleum Ltd.

(A Canadian corporation)

CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

June 30, 1974 and 1973

ASSETS AND DEFERRED EXPENDITURES

	1974	1973
Current assets:		
Cash	\$ 46,696	\$ 47,339
Bank deposit receipts	1,260,000	2,635,000
Accounts receivable	105,744	45,859
Accrued interest	14,076	30,082
Refundable deposits and prepaid expenses	3,448	4,022
Total current assets	1,429,964	2,762,302
Investments and advances:		
Borealis Exploration Limited, at cost:		
8% unsecured debentures, maturing March 31, 1978	225,000	225,000
Investment in common stock	84,000	84,000
Foraco projects, at cost	143,611	20,441
Canada Southern Petroleum (N.Z.) Limited, 25% of capital stock, at equity, and advances of \$71,539	—	71,656
PXP Steam Power Units Ltd., 50% of capital stock, at equity, and advances of \$50,339	—	50,341
Other	5,575	9,242
Deferred expenditures:		
Oil, gas and mineral permits, leases and interests, including well, geological and geophysical, lease rental and dry hole costs	7,736,985	7,102,529
Other exploratory expenses and general and administrative expenses deferred	2,901,447	3,354,619
Land, building and equipment, at cost less accumulated depreciation of \$283,828 and \$274,330, respectively	70,819	83,926
	<u>\$12,597,401</u>	<u>\$13,764,056</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND CAPITAL

	1974	1973
Current liabilities:		
Accounts payable and accrued liabilities:		
The Catawba Corporation	\$ 22,002	\$ 26,318
Other	101,825	67,233
Notes payable	8,312	—
Current portion of mortgage loan	—	15,753
Total current liabilities	132,139	109,304
Notes payable, less current portion included above	33,249	—
Commitments and contingent liabilities (Note 3)		
Capital:		
Capital stock, par value \$1 per share:		
Authorized—15,000,000 shares		
Outstanding—8,764,965 and 8,764,588 shares, respectively	8,764,965	8,764,588
Capital in excess of par value	14,495,772	14,507,321
	23,260,737	23,271,909
Deductions from capital	10,828,724	9,617,157
	12,432,013	13,654,752
	<u>\$12,597,401</u>	<u>\$13,764,056</u>

On behalf of the Board:

s/s John W. Buckley, *Director*

s/s Benjamin W. Heath, *Director*



Canada Southern Petroleum Ltd.

(A Canadian corporation)

(Expressed in Canadian dollars)

Years ended June 30, 1973 and 1974

CONSOLIDATED STATEMENT OF OIL, GAS AND MINERAL PERMITS, LEASES AND INTERESTS

Oil and gas permits, leases and interests (including excess of cost of investment in certain subsidiaries over net assets acquired)

Geological and geophysical expenses

Cost of standing wells

Dry hole costs

Lease rentals

Costs related to mineral permits

Balance
June 30, 1972

Additions
and
transfers

\$ 2,210,131

\$ 32,172

1,424,790

213,131

1,540,523

69

928,570

36,499

812,547

142,699

384,289

52,929

\$ 7,300,850

\$477,499

CONSOLIDATED STATEMENT OF OTHER EXPLORATORY EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED

Portion of organization, corporate, general and administrative expenses incurred by predecessor company prior to April 20, 1954

Expenses of the Company since April 20, 1954:

Financial, technical and other services under contract

Salaries and employee benefits

Shareholders' reports and capital stock expenses

Legal services

Building maintenance and rent

Depreciation, depletion and amortization

Lease operating costs and royalties

Interest and exchange

Geological and engineering

Transportation

Auditing services

Communications

Pipeline feasibility costs

Public relations

Miscellaneous

\$ 1,956,162

2,498,857

\$222,353

2,578,568

184,519

1,228,289

105,000

1,076,649

52,225

747,823

59,439

397,614

18,681

354,421

15,013

359,837

3,119

298,473

25,593

200,280

10,208

184,252

13,616

138,077

6,916

117,248

40

77,871

11,302

410,836

21,341

12,625,257

749,365

Less revenues:

Proceeds under carried interest agreement

Interest

Oil and gas sales

Rent

Technical and administrative services rendered

Other

1,137,322

388,252

1,257,020

203,533

743,598

36,687

720,679

35,400

194,704

—

170,892

10,732

4,224,215

674,604

Total before abandonments and sales

8,401,042

74,761

Less portion of above expenses considered allocable to interests abandoned or sold

4,675,263

\$ 3,725,779

\$ 74,761

The accompanying notes are an integral part of these statements.

<u>Abandonments and sales</u>	<u>Balance June 30, 1973</u>	<u>Additions and transfers</u>	<u>Abandonments and sales</u>	<u>Balance June 30, 1974</u>
\$471,252	\$ 1,771,051	\$ 157,068	\$304,754	\$ 1,623,365
48,212	1,589,709	497,941	77,496	2,010,154
18	1,540,574	282,548	—	1,823,122
19,023	946,046	5,148	6,012	945,182
137,315	817,931	128,918	72,958	873,891
—	437,218	24,053	—	461,271
<u>\$675,820</u>	<u>\$ 7,102,529</u>	<u>\$1,095,676</u>	<u>\$461,220</u>	<u>\$ 7,736,985</u>
	\$ 1,956,162			\$ 1,956,162
	2,721,210	\$ 264,954		2,986,164
	2,763,087	193,932		2,957,019
	1,333,289	112,855		1,446,144
	1,128,874	63,943		1,192,817
	807,262	56,338		863,600
	416,295	20,738		437,033
	369,434	24,934		394,368
	362,956	869		363,825
	324,066	17,753		341,819
	210,488	10,026		220,514
	197,868	14,183		212,051
	144,993	7,315		152,308
	117,288	609		117,897
	89,173	9,345		98,518
	432,177	28,253		460,430
	<u>13,374,622</u>	<u>826,047</u>		<u>14,200,669</u>
	1,525,574	386,473		1,912,047
	1,460,553	158,861		1,619,414
	780,285	78,536		858,821
	756,079	35,400		791,479
	194,704	—		194,704
	181,624	200		181,824
	<u>4,898,819</u>	<u>659,470</u>		<u>5,558,289</u>
	8,475,803	166,577		8,642,380
<u>\$445,921</u>	<u>5,121,184</u>		<u>\$619,749</u>	<u>5,740,933</u>
<u>\$445,921</u>	<u>\$ 3,354,619</u>	<u>\$ 166,577</u>	<u>\$619,749</u>	<u>\$ 2,901,447</u>



Canada Southern Petroleum Ltd.

(A Canadian corporation)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Expressed in Canadian dollars)

Years ended June 30, 1974 and 1973

	1974	1973
Source of working capital:		
Income, excluding amortization of deferred income of \$13,500 in 1973	\$ 659,470	\$ 661,104
Exercise of stock options	—	567,616
Exercise of stock purchase warrants	2,168	52,049
Proceeds from sales of equipment	—	1,365
	<u>661,638</u>	<u>1,282,134</u>
Disposition of working capital:		
Additions to oil, gas and mineral permits, leases and interests ..	1,095,676	477,499
Additions to other exploratory expenses and general and administrative expenses deferred, excluding depreciation of building and equipment of \$13,107 and \$13,868, respectively	812,940	735,497
Investment in Foraco projects, net	89,921	20,441
Investments in and advances to Canada Southern Petroleum (N.Z.) Limited	5,211	22,247
Additions to other investments and advances	(3,667)	2,667
Investment in and advances to PXP Steam Power Units Ltd.	3,390	19,289
Expenses of capital stock offering	13,340	16,486
Decrease in 7% mortgage loan (noncurrent)	—	15,753
Additions to building and equipment	—	6,538
	<u>2,016,811</u>	<u>1,316,417</u>
Decrease in working capital	<u>\$ 1,355,173</u>	<u>\$ 34,283</u>
Change in working capital consists of increase (decrease) in:		
Cash	\$ (643)	\$ (7,184)
Bank deposit receipts	(1,375,000)	(15,000)
Accounts receivable and accrued interest	43,879	(39,597)
Refundable deposits and prepaid expenses	(574)	(965)
Accounts payable and accrued liabilities	(30,276)	21,652
Current portion of mortgage loan	15,753	6,811
Current portion of notes payable	(8,312)	—
Decrease in working capital	<u>\$ 1,355,173</u>	<u>\$ 34,283</u>

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND CAPITAL IN EXCESS OF PAR VALUE

(Expressed in Canadian dollars)

Years ended June 30, 1973 and 1974

	Number of shares	Capital stock, \$1 par value	Capital in excess of par value	Total
Balance at June 30, 1972	8,591,520	\$8,591,520	\$14,077,210	\$22,668,730
Exercise of stock options	162,689	162,689	404,927	567,616
Exercise of stock purchase warrants ..	10,379	10,379	41,670	52,049
Expenses of capital stock offering ...			(16,486)	(16,486)
Balance at June 30, 1973	8,764,588	8,764,588	14,507,321	23,271,909
Exercise of stock purchase warrants ..	377	377	1,791	2,168
Expenses of capital stock offering ...			(13,340)	(13,340)
Balance at June 30, 1974	<u>8,764,965</u>	<u>\$8,764,965</u>	<u>\$14,495,772</u>	<u>\$23,260,737</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 1974

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiaries, Act Oils Limited (Act Oils), Rampart Petroleums Ltd., Trans-Border Holdings Limited and Canpet Inc., hereafter referred to collectively as the Company.

The properties in which the Company has interests are in an exploratory or development stage and, accordingly, all expenditures (less revenues) by the Company since its reorganization in 1954, and certain costs of its predecessor, have been capitalized or deferred, except that costs and expenses applicable or considered allocable to areas abandoned and other losses (net of profits on sales of certain interests and the excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition) have been deducted from capital.

Realization of the amounts represented by investments and advances and deferred expenditures aggregating \$11,096,618 and \$10,917,828 at June 30, 1974 and 1973, respectively, is dependent upon future developments, since the properties represented by these assets and deferred expenditures are substantially unexplored or undeveloped. The \$11,096,618 is net of losses on abandonments or sales of interests of \$16,706,477 and revenues of \$5,558,289.

In addition, \$4,953,479 of profits on the sale of certain interests has been credited to deductions from capital.

No provision for amortization of the amount carried for oil, gas and mineral permits, leases and interests or for other exploratory expenses and general and administrative expenses deferred is included in the accompanying consolidated financial statements. Depreciation has been provided for building and equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs pertaining to producing wells are computed by the unit-of-production method.

Transactions for settlement in U.S. dollars have been converted at average monthly rates. During the years ended June 30, 1974 and 1973, exchange gains and losses have not been significant. Such amounts have been charged to general and administrative expenses deferred in the accompanying consolidated financial statements.

As stated above, the Company capitalizes or defers all expenditures (less revenues) including applicable general and administrative expenses. However, for Canadian income tax purposes, the Company may claim exploration, development and lease acquisition costs in the year incurred, and capital cost allowances (depreciation) in amounts which may

exceed those provided in the accounts. The Company had no Canadian income tax liability for fiscal 1974 or 1973, and at June 30, 1974 the following accumulated expenditures remain to be carried forward indefinitely to reduce future taxable income:

Drilling, exploration and lease acquisition costs	\$13,140,000
Undepreciated capital costs	\$ 620,000

The form and content of the financial statements of the Company may be affected in the future by a recently issued proposed statement entitled "Accounting and Reporting by Development Stage Companies, Subsidiaries, Divisions and Other Components", by the U.S. Financial Accounting Standards Board which provides that no special accounting standards shall apply during a company's development stage.

2. Investments and advances

Borealis Exploration Limited (Borealis), in consideration of Canada Southern's agreeing to forego interest for the period ending March 31, 1973 on the 8% unsecured debentures of \$225,000 and agreeing to assist in maintaining Borealis' books and records at Canada Southern's expense for the period ending March 31, 1972, issued to Canada Southern 90,000 fully-paid and nonassessable shares of its common stock. These shares, valued at \$84,000, represent 3.81% of the outstanding common shares of Borealis at June 30, 1974 and 1973, based on the above-mentioned considerations. Interest due after March 31, 1973 (\$22,500 at June 30, 1974 and \$4,500 at June 30, 1973) on the 8% unsecured debentures will not be recorded by Canada Southern until its collection is certain.

Canada Southern's equity in net assets of Borealis was approximately \$23,387 and \$23,405 at June 30, 1974 and 1973, respectively. Borealis is engaged in mineral exploration in northern Canada, and its net assets consist primarily of deferred exploratory and administrative costs.

During the year ended June 30, 1974, the Company acquired a 12.75% interest in the United States and Canadian patent rights and a 7.5% interest in the Australian patent rights to a drilling unit. The United States and Canadian rights are held by Foraco N.V., a Netherlands Antilles corporation, and the Australian rights are held by Foraco N.H., a New Hebrides corporation. In addition, a 25% interest in one of the drilling units was acquired during the year ended June 30, 1974. The Company is indebted to Forage Rationnel Construc-

tion, a French company, for \$41,561 in connection with the acquisition of this investment. All costs relating to these investments are being deferred.

Canada Southern Petroleum (N.Z.) Limited held concessions offshore New Zealand's North and South Islands. During the year ended June 30, 1974, the concessions were relinquished and Canada Southern Petroleum (N.Z.) Limited was liquidated.

Canada Southern and United Canso Oil & Gas Ltd. each owns 50% of the capital stock of PXP Steam Power Units Ltd. which holds the Canadian rights to a steam power unit being developed by Pritchard Steam Power Pty. Ltd. of Melbourne, Australia. Canada Southern wrote off its investment in PXP Steam Power Units Ltd. at June 30, 1974.

3. Properties and related exploratory and other expenses

The Company's properties and property interests are located in British Columbia, the Yukon and Northwest Territories, the Arctic Islands and Alberta in Canada, Australia, Italy, South West Africa and the United States.

At June 30, 1974 and 1973, much of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1974 and 1973, the accumulated expenditures by the operators attributable to the Company's carried interests substantially exceeded the amounts recouped from production, except for two blocks which have reached payout status. The Company's share of profits from these blocks was \$386,473 and \$388,252 for the years ended June 30, 1974 and 1973, respectively, which amounts have been credited to other exploratory expenses and general and administrative expenses deferred in the accompanying consolidated financial statements.

The Company's share of the cost of a standing well, completed as a discovery on a permit in the Yukon during the year ended June 30, 1965, at which time the Company had a 45% working interest, amounted to \$1,121,125 at June 30, 1974 and 1973. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

NOTES TO FINANCIAL STATEMENTS—Continued

Most of the Company's interests in the Arctic Islands are subject to agreements with Panarctic Oils Ltd. The latter company has earned interests of 80% in a significant portion of the properties and may earn a 50% interest in seven additional blocks by carrying out a specified exploratory program.

Lease rentals, work requirements and deposits in connection with the properties and property interests held by the Company at June 30, 1974 approximate \$450,000 for the year ending June 30, 1975.

4. The Catawba Corporation

The amounts shown in the consolidated statement of other exploratory expenses and general and administrative expenses deferred for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). Canada Southern's current (expiring July 1978) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by Canada Southern during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to Borealis Exploration Limited and United Canso Oil & Gas Ltd. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of Canada Southern and of the other companies mentioned above.

5. Deductions from capital, stock purchase warrants, and stock options and reservations

Deductions from capital for the year ended June 30, 1974 and 1973 are summarized as follows:

	1974	1973
Losses on abandonments or sales of interests:		
Prior years	\$15,494,910	\$14,374,534
Current year	1,211,567	1,120,376
	<u>16,706,477</u>	<u>15,494,910</u>

Stock options outstanding at June 30, 1974 were summarized as follows:

Optionee	Date of grant	Expiration date	Number of shares	Option price (per share)	Market price (per share) at date of grant
Officer	June 9, 1971	June 8, 1976	3,000	\$4.75(U.S.)	\$4.75(U.S.)
The Catawba Corporation	November 20, 1973	November 20, 1978	150,000	5.20	5.20
Officers	November 20, 1973	November 20, 1978	40,000	5.20	5.20
Employees	November 20, 1973	November 20, 1978	17,000	5.20	5.20
			<u>210,000</u>		

	1974	1973
Profits on sales of certain interests	4,953,479	4,953,479
Excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition	924,274	924,274
	<u>5,877,753</u>	<u>5,877,753</u>
Deductions from capital	<u>\$10,828,724</u>	<u>\$ 9,617,157</u>

During the year ended June 30, 1974, stock purchase warrants for the purchase of 601,934 shares of Canada Southern's capital stock at a price of \$5.75 per share expired without exercise. During the two years ended June 30, 1974, warrants to purchase 10,756 shares were exercised with proceeds to the Company of \$54,217.

On April 11, 1967, Canada Southern's shareholders approved an incentive stock option plan authorizing the Board of Directors to grant options on 300,000 shares of Canada Southern's capital stock. Under this plan, through June 30, 1973, options to purchase shares had been granted to Catawba for 150,000 shares and to officers, employees and Canadian counsel for 71,000 shares. During the year ended June 30, 1973, assignees of Catawba, an officer and employees exercised options on 162,689 shares at \$3.50 (U.S.) per share as compared with market prices ranging from \$7.00 to \$8.00 (U.S.) per share on the dates of exercise. On June 24, 1974, an option granted to Canadian counsel to purchase 10,000 shares at \$8.00 (U.S.) per share expired without exercise.

On September 21, 1973, the Board of Directors adopted a new incentive stock option plan on 300,000 shares of Canada Southern's capital stock. Under this plan, through June 30, 1974, options to purchase shares had been granted to Catawba for 150,000 shares and to officers and employees for 57,000 shares.

At June 30, 1974, all of the above-mentioned options on 210,000 shares were exercisable. In addition, there were 172,000 and 79,000 shares reserved for future option grants at June 30, 1974 and 1973, respectively. There were no other changes in stock options during the two years ended June 30, 1974.

The supplementary letters patent of the Company provide that no person (as defined) shall vote more than 1,000 shares.

6. Compensation and allocated expenses

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Contributions by the Company to the pension plan on behalf of all

employees were \$14,653 and \$12,289, for the years ended June 30, 1974 and 1973, respectively.

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by Canada Southern, including contributions to a pension plan on their behalf, amounted to \$94,686 and \$96,173 for the years ended June 30, 1974 and 1973, respectively. Of these amounts, \$37,523 and \$38,153 were on behalf of directors and \$57,163 and \$48,150 were on behalf of officers. At June 30, 1974, there were five directors and six officers, of which one was also a director.

Auditors' Report

The Board of Directors and Shareholders

Canada Southern Petroleum Ltd.

We have examined the accompanying consolidated balance sheet of Canada Southern Petroleum Ltd. at June 30, 1974 and 1973 and the related consolidated statements of oil, gas and mineral permits, leases and interests, of other exploratory expenses and general and administrative expenses deferred, of changes in financial position and of capital stock and capital in excess of par value for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the realization of investments and advances, and deferred expenditures in the consolidated balance sheet as discussed in Note 1, the statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1974 and 1973 and the consolidated changes in oil, gas and mineral permits, leases and interests, in other exploratory expenses and general and administrative expenses deferred, in financial position and in capital stock and capital in excess of par value for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Hartford, Conn.
September 10, 1974

Canada Southern Petroleum Ltd.

ACREAGE SUMMARY—AUGUST 31, 1974

	Gross Acreage in Which Interest Is Held	Net Acreage		
		Held Under Lease	Held Under Permit	Total
CANADA				
Petroleum				
British Columbia				
Pacific Agreement				
Working Interest	51,242	9,738		9,738
Carried Interest	66,643	14,162		14,162
Phillips Agreement—Carried Interest	181,753	23,505	3,751	27,256
Other				
Working Interest	50,911	12,552	5,427	17,979
Carried Interest	24,572	410		410
Total British Columbia	375,121	60,367	9,178	69,545
Alberta—Working Interest	67,680	2,448	11,040	13,488
Yukon & Northwest Territories				
Liard Basin				
Dome-Pan Am Agreement—Carried Interest	202,255	91,016		91,016
Other	330,428	204,031		204,031
Total Liard Basin	532,683	295,047		295,047
Arctic Islands				
Panarctic Agreements— (see table, page 4)				
TriCeeTee	3,687,097		192,368	192,368
Other	4,479,701		1,955,521	1,955,521
Total Panarctic Agreements	8,166,798		2,147,889	2,147,889
CSP—100%	74,134		74,134	74,134
B. P. Sub-Farmout	143,202		28,608	28,608
Total Arctic Islands	8,384,134		2,250,631	2,250,631
Total Canada (Petroleum)	9,359,618	357,862	2,270,849	2,628,711
Minerals				
Northwest Territories(*)	46,990		9,583	9,583
Total Canada	9,406,608	357,862	2,280,432	2,638,294
AUSTRALIA (Petroleum)	76,800		3,840	3,840
ITALY (Petroleum)	164,074		12,306	12,306
SOUTH WEST AFRICA (Petroleum)	5,238,520	523,852		523,852
UNITED STATES (Idaho, Nevada) (Minerals)	11,710	2,049		2,049
Grand Total	14,897,712	883,763	2,296,578	3,180,341

(*) Includes interests held through the Company's 3.81% stock interest in Borealis Exploration Limited and the Company's 20% interest in the Melville Peninsula iron ore prospect acquired in October 1970.

